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ABSTRACT

This study was designed to measure the economic impact on state agencies, AFDC recipients and child care providers if day care payments were calculated as income disregards rather than Title XX expenditures. The methodology, used in preliminary surveys in four states (North Carolina, Oregon, California and Maine) consisted of three major steps: (1) obtaining a random sample of 200 employed AFDC recipients whose children receive child care financed by Title XX; (2) obtaining data which would enable the AFDC grant to be evaluated to ascertain the impact if recipients were to pay their own child care with funds made available through an income disregard policy; (3) obtaining fiscal data which would enable the sample findings to be projected to the governmental bodies which appropriate AFDC and Title XX funds. The major findings included are the following: (1) the federal government would face a large increase in AFDC funding with no offsetting of earnings; (2) the state and local governments would free far more Title II dollars for reallocation than they would spend on increased AFDC payments; (3) wage earning AFDC clients would have to find far cheaper forms of day care than at present in order to avoid substantial monetary losses; (4) the negative financial impact on AFDC clients would vary and would most affect those earning the lowest wages. (MP)

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POLICY IMPLICATIONS OF ALTERNATIVE CHILD CARE FUNDING MECHANISMS

EXECUTIVE SUMMARY

Contract No. 18-P-90431/3-01

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INTRODUCTION

REAP Associates, Inc., as part of an SRS-funded study (Contract No. 18-P-90431/3-01), researched the fiscal and policy impacts which may result from HEW enforcement of the Federal Interagency Day Care Requirements (FIDCR). As a small part of this study, we performed a preliminary survey in four states to investigate the following policy question:

- What would be the economic impact on AFDC recipients and child care providers if states chose not to fund day care for AFDC wage earners out of Title XX funds, but instead relied solely on increasing work-related disregards for these individuals? Also, what would be the budgetary affects on various governmental agencies - local, state, and federal?

Because a number of states are actively considering this policy change - as a response to rising day care costs and the unchanged Title XX ceiling levels - and because some states have already implemented this system, it was determined that information is needed on how funding and expenditure patterns would be altered, whether AFDC wage earners would be adversely affected, and whether methods of day care provision would change.

The results of our ministudy, which are suggestive only and at this point rely on a limited data base, indicate that a substantial impact on all elements within the system would probably result from implementing this policy option. The major findings, some of which were rather unexpected, include the following:

- The federal government would face a large increase in AFDC funding, with no off-setting of savings.
- The state and local governments would free far more Title XX dollars for reallocation than they would spend on increased AFDC payments.
- Wage earning AFDC clients would be adversely affected: almost universally they would have to find far cheaper forms of care than at present in order to avoid substantial monetary losses; parents with two or more children in care would have difficulty affording even subsistence care levels.
- The negative financial impact on AFDC clients would vary and would most affect those earning the lowest wages.

In addition to those findings, the methodology used in the survey raised some disturbing concerns about quality control in providing day care services to AFDC wage earners. In the two locations where a random survey of AFDC day care recipients was made, only 26% and 23%, respectively, of the clients were actually earning wages during the sampled period (November - December, 1976) despite the fact that at least 85% of the clients were receiving day care for work-related reasons.

A second unexpected finding in the study is that in the one location where the Title XX - AFDC policy change has already occurred, there appeared to be a reduction in the actual use of day care per family of about 44% per month. A number of questions about the level of need and the use of day care for work-related reasons are raised by this finding, none of which the ministudy was able to explore.

The following pages are extracted from the analysis. Presented are the major study conclusions, some overall statistical data, and an in-depth case history of one of the four sites, the State of Maine.

INCOME MAINTENANCE SUBSTUDY

The methodology for this study was designed to measure the impact on state agencies, AFDC recipients, and providers if day care payments were calculated as income disregards rather than Title XX expenditures. The methodology consisted of three major steps:

- obtaining a random sample of 200 employed AFDC recipients whose children receive child care financed by Title XX
- obtaining data which would enable the AFDC grant to be recalculated to ascertain the impact if recipients were to pay their own child care with funds made available through an income disregard policy
- obtaining fiscal data which would enable the sample findings to be projected to the governmental bodies which appropriate AFDC and Title XX funds

Following is a summary of overall findings, findings for each of the states, and a summary of the study conducted in Maine.

Summary of Overall Findings

- Substantial numbers of working AFDC recipients could continue their children in Title XX type child care only at a net loss in income if a disregard policy were enforced:
  - In Maine, working AFDC recipients would lose an average of $125 per month.
  - In Mecklenburg County, North Carolina, 55% of the recipients would lose an average of $50 per month. (The remainder would lose nothing.)

- In Santa Clara County, California, 81% of the wage earners would lose an average of $157 per month. (The remainder would lose nothing.)

- No family with two or more children in care could continue Title XX type care without incurring a substantial loss in net income - about 75% greater than the loss incurred by families with only one child in care.

- The size of the income losses incurred by the impacted families would undoubtedly force most of them to turn to less expensive modes of child care than Title XX care, family day care, in-home care, and unregulated forms of care.

- Findings from the one state which currently uses an income disregard policy indicate that it is probable that families in the other three states would reduce the hours that their chidren spend in care to a level well below what currently exists.

- The financial impact on recipients appears to be a function of both the cost of child care and the AFDC and Title XX programs.

- If states reallocate their Title XX savings to other services, the federal government saves no Title XX monies and incurs substantially increased AFDC costs.

- The ultimate effect of the disregard policy is to shift the financial burden for child care costs both to the working AFDC recipients and to the federal government.

Summary of Findings by State

North Carolina (Mecklenburg County)

- Impact on Recipients - the impact upon the recipients would vary according to whether or not they incurred a loss in income:

  - About 45% of the sample would incur no income loss. They would probably continue their present Title XX child care arrangements.

  - About 40% of the sample would suffer a loss greater than $50 a month. This group could no longer afford the relatively expensive Title XX care arrangements for their children. They

would either have to locate less expensive, uncertified arrangements or reduce the number of hours that their children are in care.

- No family with two or more children in care could continue the present Title XX care arrangements without undue financial loss.

- Impact on Funding Sources - the differing matching formulas for the Title XX and the AFDC programs would not affect the three funding sources equally.

  - Mecklenburg County would realize an absolute savings of about $16,000 in county dollars. More importantly, it would save almost 9% of its FY 1977 Title XX day care budget. These savings could be used to increase other Title XX programs.

  - The state incurs a small net loss, but it frees Title XX dollars for use elsewhere.

  - If the county and state divert the Title XX savings to other services, the federal government would lose almost $80,000. This loss represents the federal share of the increase in AFDC payments to the recipients.

Oregon

- Impact on Recipients - Oregon's change to an income disregard policy for child care appears to have affected its recipients in several ways:

  - Recipients have apparently turned to less expensive (than Title XX) types of care. The average hourly cost of care for the recipients in the sample was $.63; the average cost of Title XX care is $.80.

  - Recipients have apparently reduced the number of hours their children spend in care to the least possible amount. The average was 93 hours per month for each child in the sample; the statewide average for Title XX care is about 166 hours.

    . There are several possible explanations for this conclusion. Even though, for many of the families in the sample, a dollar spent on child care resulted in a dollar increase in their grant, parents may view child care expenses as coming directly from their pockets and thus attempt to reduce child care costs.

. Day care centers serving the income eligible and protective-service populations no doubt encourage the use of full-time care to avoid part-time vacancies and lowered reimbursement. This tactic drives up the average number of hours Title XX children spend in care.

- The disregard policy has had a negative financial impact on only a small percentage of recipients, but the impact has been greatest on those who can least afford it. Virtually all of the clients who incurred a net loss were those whose incomes were well below the mean gross income for the sample.

- Impact on Funding Sources - the state of Oregon and the federal government share the funding although in uneven proportions of both Title XX and the AFDC programs. The change to an income disregard policy has had a significant impact on both:

  - Oregon has been able to divert between $3.1 million and $5.6 million (including both state and federal funds) in Title XX dollars to other Title XX services. The change in policy has been an effective method to maximize the Title XX funds available to the state.

  - The policy change has cost the federal government about $1.4 million a year in AFDC matching funds for Oregon's AFDC program.

California (Santa Clara County)

- Impact on Recipients - even though California has high grant levels, the high costs of Title XX child care would lead to large financial losses for recipients. These losses vary according to a number of factors:

  - Only about 19% of the recipients - all with only one child in care - would incur no income loss if they were to keep their children in Title XX care.

  - Over 80% of the families would incur a net loss. For at least three-fourths of these families, the loss would be so great that they could not afford to continue their children in Title XX care. All families with two children in care would be forced to make other child care arrangements.

- Families would turn to less expensive (than Title XX) child care providers. They would no doubt also attempt to reduce the number of hours their children spend in care to the absolute minimum possible.

- Impact on Funding Sources - present formulas for matching Title XX and AFDC funds would lead to a differing impact on funding sources:

  - Counties would incur an increase in AFDC costs equal to their proportion of the nonfederal match.

  - The state would save general revenue funds as the burden is transferred from Title XX to AFDC and from state matching funds to county matching funds.

  - The potential exists for California to free substantial amounts of Title XX money through a reduction in Title XX day care costs. If these funds are spent on other Title XX services, as would likely be the case, the federal government will incur large increases in the costs of its AFDC reimbursement to California; it will not, however, realize any savings on Title XX.

DISTRIBUTION OF INCOME LOSS TO FAMILIES IN SAMPLE STATES AND COUNTIES

Monthly Income Loss	Number of Families				Percentage			
	Maine (n=51)	North Carolina (Mecklenburg) (n=47)	Oregon* (n=200)	California (Santa Clara) (n=118)	ME	NC	OR	CA
$0	1	21	166	22	2%	45%	83%	19%
$1-50	11	8	34	25	22%	17%	17%	21%
$51-100	9	11	*	17	18%	23%		14%
$101-150	13	4		15	25%	9%		13%
$151-200	7	1		9	14%	2%		8%
$201-250	3	2		10	6%	4%		8%
$251-300	2			8	4%			7%
$301-350	3			2	6%			2%
$351-400	2			2	4%			2%
$401-450				8				7%
					101%	100%	100%	101%

*Computations unavailable on same basis as other states. Income losses for the 34 families were between $1 and $77.

NET SAVINGS REALIZED BY TRANSFER OF DAY CARE FROM TITLE XX TO AFDC[1]

Governmental Level At Which Savings (Expenditures) Accrue	Title XX Payment Reductions to Day Care				AFDC Grant Increases				Net[2] Savings (or Expenditures)			
	Maine	Oregon	California (Santa Clara)	North Carolina (Mecklenburg)	Maine	Oregon	California	North Carolina	Maine	Oregon	California	North Carolina
Federal Government[2]	-342,375 (75%)	-3,274,000 (75%)	-281,160 (75%)	-127,875 (75%)	132,300 (70%)	1,424,000 (59%)	94,200 (50%)	78,580 (68%)	210,075	1,850,000	(30,615)	78,580
State Government[2]	-26,477 (6%)	-1,092,000 (25%)	-93,720 (25%)	-8,355 (5%)	56,700 (30%)	488,000 (41%)	63,585 (34%)	18,460 (16%)	(30,223)	104,000	30,135	10,105
Local Source (Including Private Agencies)	-87,648 (19%)			-34,270 (20%)			30,615 (16%)	18,460 (16%)	87,648		94,200	15,810
TOTAL	-456,500 (100%)	-4,366,000 (100%)	-374,880 (100%)	-170,500 (100%)	189,000	2,412,000	188,400	115,500	267,500	1,954,000	93,720	104,495

[1]All percent figures in parentheses refer to percentage share of expenditure for Title XX or AFDC in each state.

[2]All net savings at these levels are in "payments to day care" only. The federal/state governments will probably not realize any reductions in Title XX payments but will reallocate funds. Real net change in federal/state expenditures is only the total of AFDC grant increases without any offsetting reductions.

MAINE

At the present time, Maine is spending $2,771,000 on Title XX day care clients. There are approximately 1,275 individual children receiving services, of whom at least 63% (803) are income maintenance eligible. The average cost per child per week is $42.

Budgetary Impacts

A random sample of income maintenance eligible clients receiving day care indicates that about 26% (±6%) were earning income during the sampled period (November 27 through December 26, 1976). This means that the parents of 209 children could theoretically be transferred from Title XX to income disregard sources for day care (about 175 families). Using the average monthly AFDC payments for this target group, and the payment ceiling in force in Maine, calculations performed on the caseload indicate that approximately $90 per family per month could be added to present AFDC grants to use toward day care funding. This translates to approximately $75 per child (since the average is 1.2 children per AFDC family in day care). This figure is misleading, however, since a family with two or more children in care would incur a disproportionately heavier share of day care expenses as total grant allowances go up in small increments with additional children.

At the present rate of funding, if the state of Maine were to force all AFDC wage earners to use income disregards for day care, an immediate savings of about $456,500 would be realized from Title XX funds. This would be offset by an increase in AFDC payments of about $189,000, realizing a system-wide savings of $267,500. Since the percentage of funds from each source (federal, state, local) differs in each program, the net savings at each governmental level is calculated below.

TABLE I - MAINE

NET SAVINGS REALIZED BY TRANSFER OF DAY CARE FROM TITLE XX TO AFDC

Title XX Payment and Reductions	AFDC Grant Increases	Net Savings
Federal Govt. (75%) -$342,375	(70%) +$132,300	$210,075 (78.5%)
State Govt. (5.8%) -$26,477	(30%) + $56,700	$30,223 (-11.3%)
Local Sources* (19.2%) -$87,648	-0-	$87,648 (32.8%)
Total -$456,500	+$189,000	$267,500 (100%)

*Includes local government, philanthropic sources, community organizations, etc.

It is evident that a significant portion of federally derived Title XX dollars can be redirected towards other services ($342,375) in Maine. Local government and community organizations will also be able to reallocate a substantial number of dollars. Because the offsetting increase in AFDC payments is borne only by state and federal government, the state would experience higher net expenditures, albeit relatively small. The federal government will also experience a net increase of

expenditures since Title XX dollars will not really be saved, they will only be retained and reallocated by the state.

Client and Provider Impacts

The impact upon clients currently receiving Title XX FIDCR day care would be enormous, and would necessitate major changes in the day care market. Since the average monthly cost of Title XX day care per family is $222 ($182 x 1.22 children) and the average monthly AFDC day care increment would be $90, clients would continue to send their children to the present centers only at a monthly personal cost of $132. In fact, virtually no clients would do this (from an economic standpoint) given Maine's grant ceiling, since the total monthly grant is less than the amount necessary to provide Title XX day care. That is, a ceiling of $174 for one child, with $61 increments for each additional child, is less than the $182 necessary for one month of day care per child.* A quick analysis of our sample indicates that families needing day care for two or more children would be particularly hard hit, with an average of $42 available for each child per month (calculated on an average available additional disregard of $84 for such families).

The following distribution table indicates the potential amount of monthly income loss for families affected by a Title XX to AFDC disregard policy change.

*The only exception to this - and one case was culled in our sample - is where a grant ceiling of $235 or more (two or more children) is available, the actual grant is very low, and only one child needs day care.

TABLE II

A. Distribution of Income Loss All Families (n=51)

Monthly Income Loss	Number of Families in Sample	Percentage
$0	1	
$1 - 50	11	24%
$51 - 100	9	18%
$101 - 150	13	25%
$151 - 200	7	14%
$201 - 250	3	6%
$251 - 300	2	4%
$301 - 350	3	6%
$351 - 400	2	4%
	51	101%

Mean Loss: $132
Median Loss: ≈$125

B. Distribution of Income Loss - Families with Two Children in Care (n=11)

Monthly Income Loss	Number of Families in Sample	Percentage
$101 - 150	1	9%
$151 - 200	0	0
$201 - 250	3	27%
$251 - 300	2	18%
$301 - 350	3	27%
$351 - 400	2	18%
	11	99%

Mean Loss: $280
Median Loss: $259

As is evident from the tables, over 75% of the AFDC working population would not be in a position to afford FIDCR type day care centers in the state of Maine if disregard policy were enforced. A substantial number of families with only one child in care would still be able to afford private center care, with an average disregard add-on of about $92 per month, and with private care running from $95 to $130 per month. However,

almost all families with two or more children in care would be excluded from all but the in-home types of care arrangement.

TABLE III

DISTRIBUTION OF AVAILABLE AFDC ADD-ONS FOR DAY CARE FAMILIES WITH ONE CHILD IN CARE (n=40)

In-home Level	Number of Families	Percentage
$0 - 60/month	15	38%
Family Day Care Level		
$61 - 90/month	4	10%
Private Center Level		
$91+/month	21	53%
	40	101%

Based on the above distributions, approximately 38% of the affected families in the state with one child in care would find in-home type arrangements for their children (presently unregulated), an additional 10% would go to FDCH arrangements, and the rest (53%) would remain in some type of center care.

ADDENDUM

STATISTICAL BREAKDOWNS OF SAMPLED POPULATION

For AFDC recipients who have income:

Number of families	51
Mean salary	389.22
Mean income disregard	298.76
Mean current grant	148.25
Mean current grant ceiling	238.71
Mean grant amount available for day care per family	90.45
Mean potential disregard for day care	221.25
Mean new grant	238.43
Mean loss	131.08
Number children in family	2.02
Number of children in day care	1.22
Mean grant available per child per family for day care	74.14